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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 001217

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TREASURY FOR GLASER/SZUBIN/LEBENSON
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EB/ESC/TFS FOR SALOOM

E.O. 12958: DECL: 03/16/2016
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [SY](#)
SUBJECT: SARG PUBLICLY DISMISSES 311 SANCTIONS, WHILE
EFFECTS BEGIN TO TAKE HOLD

REF: A. DMS 1157
[1](#)B. DMS 1014

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

[1](#)1. (C) Summary: Through government media and public appearances, SARG officials are attempting to reassure their domestic audience that the USG's March 9 decision to impose USAPATRIOT Act Section 311 sanctions against the Commercial Bank of Syria (CBS) was purely political and that the government successfully defended Syria's financial system from the US action. Behind the campaign, however, contacts in the private banking sector report that the sanctions already are having an effect on the CBS's ability to conduct business. Most are concerned that the private banks likewise will be affected, and point to at least one example in which the CBS may be spreading the consequences of sanctions to the fledgling sector in a further attempt to paint the US action as unfair. End summary.

Dismissing the Sanctions

[1](#)2. (U) Since the imposition of Section 311 sanctions on March 9, the SARG has attempted to dismiss the US action as politically motivated and without merit. Minister of Finance Mohammad al-Hussein challenged the USG at the opening session of a conference on Islamic banking on March 13 to present its evidence against the CBS, claiming that the US action lacks legal justification. Syria's Grand Mufti, Sheikh Ahmad Badr Eddin Hassoun used the same platform to state that Syrians should view the sanctions as a "medal" highlighting the injustice of US financial hegemony (ref A). In a further effort to paint the action as political, journalist Haytham Yahya Mohammed, who visited the US on a PD-funded Foreign Press Center tour in 2004, asserted in a March 13 editorial that he met USG officials from different departments during his visit who were conflicted about the strength of the evidence against the CBS. He concluded that "neo-conservatives" pushed the decision through in their ideological vendetta against Syria.

[1](#)3. (C) The SARG also has used its control of the local media to discount the potential economic impact of Section 311 sanctions. Samir Seifan, an influential, independent Syrian economist, informed us that the state-controlled press severely edited an interview he gave on March 13, removing numerous references to the possible deleterious effects of

sanctions on the economy. Duraïd Durgham, General Director of the Commercial Bank of Syria, claimed in an interview that he was not surprised by Treasury's decision to impose sanctions, and that the switch to euros for public sector transactions in February successfully preempted the US goal of cutting the CBS off from the international financial system. Although contacts in the private banking and business sectors continue to state that the switch to euros has more rhetorical than economic value (ref A), the SARG announced on March 12 that it would begin to denominate its budget in euros instead of dollars indicating its commitment to further disengage from the US currency.

Immediate Effect

¶4. (C) Despite the SARG's energetic campaign to discount any potential negative effects flowing from 311, contacts in the private financial sector contend that the designation of the CBS as an institution of primary money laundering concern restricted the bank's activities in the international financial system even before the final rule was imposed (ref A). Contacts report that in the immediate aftermath of the imposition of the final rule, it appears that the sanctions have created additional problems for the CBS. Basel Hamwi, General Manager of Bank Audi Syria, stated that his bank has witnessed an increase in business from foreign clients who say that they have decided not to engage in any future relationship with the CBS. Hamwi, whose bank holds no dollar-denominated accounts in the CBS, previously decided to restrict his interactions with the public bank because of its poor services, a point echoed by others in the sector and among private business people. Hamwi believes that the

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sanctions, combined with the bank's poor management, will cause more clients to leave the CBS in favor of Syria's private banks. However, other contacts suggest that the CBS is having no trouble making money, and that continued government support and guaranteed public sector clients will allow the CBS to weather these business losses in the short term.

¶5. (C) There are indications that the CBS may be attempting to spread the difficulties associated with the US action to the private banks in a further attempt to paint US sanctions as politically motivated and ultimately hurting Syria at large. At least one contact in the private banking sector claims that the CBS recently has slowed, and in some cases stopped, transferring dollar-denominated accounts to foreign banks, using the excuse of 311 to hold up the transfers. Soltan al Zobi, General Manager of the International Bank for Trade and Finance (IBTF), which was the third private bank to open in Syria, claimed that the CBS still has not fulfilled his two-week old request- made just before the imposition of sanctions- to transfer \$8.5 million in dollar-denominated customer deposits, equaling almost 25% of IBTF's capital, to one of IBTF's correspondent accounts in a foreign bank. Zobi claimed that the delay already has cost him almost \$16,000 since he is making no interest on the account at the CBS. In an indication that the SARG's strategy may be working, Zobi pinned the blame for the stalled transfer and his lost income on US sanctions, adding that even after the CBS releases IBTF's money he anticipates further delays when the transaction originating from the CBS attempts to clear New York. Zobi further complained that there is no way in Syria to avoid doing business with the CBS because of its huge market share, and that he and his board are at a loss regarding how to proceed in the post-sanction environment.

¶6. (C) Comment: It is too early to gauge the full impact of 311 on the Syrian banking system. At a recent dinner, the general managers of Syria's private banks reiterated to us their concerns that sanctions will hurt their business as US and European institutions perform due diligence on third

party institutions that may be suspected of conducting transactions on behalf of the CBS because of their physical proximity and continuing correspondent relations. They contend that the sanctions have implicated the entire Syrian financial system, regardless of the USG's intention to target the CBS. This gives credence to the SARG's campaign to paint all US sanctions as unfair- a campaign that resonates with a domestic audience increasingly predisposed to see US action as politically motivated and indifferent to the negative effects on the broader Syrian population.

SECHE